

CONSIDERATIONS IN DETERMINING
CROPLAND CASH RENT RATES 1/

A. SUPPLY AND DEMAND

When cropland available for renting is abundant in relationship to tenants seeking land, cash rent rates will adjust downward and will adjust upward when the opposite is true. Knowledge of the supply of land to rent and the demand for land is often imperfect. Consequently, adjustments are made only as sufficient pressures are in the market.

B. TRADITION

Cash rent is influenced to some degree by community custom and tradition. Operational management and expected yields are reflected in the rental rates. Parties to an agreement that have up-to-date information on ownership and production costs and returns are influenced less by tradition in establishing cash rent charges.

C. OPERATOR'S EXPECTED RETURN

Illustration 1. Budgeted Costs and Returns Per Acre For Corn
At Various Yield Levels With Average Management

	<u>Yield Levels</u>			<u>My Farm</u>
	<u>80 Bu.</u>	<u>100 Bu</u>	<u>120 Bu</u>	
1. Gross Income/Acre*	\$88.00	\$110.00	\$132.00	\$_____
Direct or Variable Costs:				
Fertilizer & Lime	\$16.00	\$22.00	\$30.00	_____
Seed	4.50	5.50	6.50	_____
Machine Cash Cost	9.00	10.00	11.00	_____
Chemicals	<u>4.50</u>	<u>6.50</u>	<u>8.50</u>	_____
2. Total	34.00	44.00	56.00	_____
3. Return Over Variable Costs (1-2)	54.00	66.00	76.00	_____
Indirect or Fixed Costs:				
Mach. & Equip.	15.00	16.00	17.00	_____
Labor	15.00	18.00	21.00	_____
Miscellaneous	<u>2.00</u>	<u>3.00</u>	<u>3.00</u>	_____
4. Total	32.00	37.00	40.00	_____
5. Return for Rental & Management [1-(2+4)]	22.00	29.00	36.00	_____

* \$1.05 per bushel at harvest, labor \$2.50 per hour.

1/ John E. Moore, Extension Economist, Farm Management, Ohio State University, May, 1972.

D. LANDLORD'S COST OF OWNING THE LAND

Landlord's ownership costs on crop land are interest and taxes. The illustration below varies the interest rates and the value of land per acre. Taxes remain constant at one percent of the value.

Illustration 2. Ownership Costs of Interest and Taxes On Cropland at Different Land Values and Rates of Interest

<u>Desired Interest Rates</u>	<u>Taxes</u>	<u>Value of Land Per Acre</u>				
		<u>\$200</u>	<u>\$300</u>	<u>\$400</u>	<u>\$500</u>	<u>\$600</u>
4%	1%	\$ 10	\$ 15	\$ 20	\$ 25	\$ 30
5%	1%	12	18	24	30	36
6%	1%	14	21	28	35	42
7%	1%	16	24	32	40	48
8%	1%	18	27	36	45	56

E. BARGAINING

It is important to realize that the land ownership market maybe separate and distinct from the land rental market. With many nonfarm ownership market pressures such as suburban housing, investment for appreciation and the desire for urbanites to live in rural land areas sale prices may not reflect agricultural productivity value. Determining a fair cash rent becomes a problem of establishing an equitable return between the landlord and tenant after considering each party's contribution.

CONCLUSION:

Bargaining between landlord and tenant takes place in the area of what costs must be covered and at what rate.

If more land is available for rent than there are tenants available at the present rental rate, landlords may logically decide that capital in land can return more in some other use and sell the land. He may decide to take less interest on his investment in the land for the pride of owning and and/or justify a lower rental charge after considering the rate of appreciation that is taking place.

If land for rent is in short supply in relation to the available renters the tenant may rationalize that he has his machinery on hand and maybe excess labor, thus these costs have to be covered whether he rents more or not. Consequently, he may agree to pay more than he expected for rent and earn less for his labor and machinery overhead costs than he expected. The landlord normally receives less net income from his cash rent than share renting would produce, but he has shifted most of the risk to the tenant.